

**MAYOR JERRY SANDERS
CITY OF SAN DIEGO
STATE OF THE CITY
January 12, 2006**

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Thank you and good evening.

I appear before you this evening because our City Charter requires that every year, on or before the 15th day of January, the mayor communicates the state of the City's affairs.

Over the course of my term, I will communicate regularly with our citizens so that they feel well informed about the various problems facing our city and more importantly, the solutions that I propose.

I can tell you with confidence that the state of our city – of its people and of its economy – is strong and healthy. As a place to live, to raise a family, to do business and to recreate, San Diego is truly America's finest city.

But the state of San Diego's city government – our government -- is something else altogether. It today faces the most serious financial, organizational and ethical crisis in its history.

I've been mayor of this city for just over 6 weeks, and I assumed the voter-mandated executive powers of a strong mayor just 12 days ago.

So my report to you today on the condition of city government is -- of necessity – preliminary.

Mayors before me have offered platitudes -- they have offered visions and ten point plans. That's not my style and that's not what our city needs right now.

San Diegans are craving for someone to tell it to them straight – for their mayor to tell them the whole truth -- what happened, why it happened and how it will be fixed.

People in government circles have invented the fancy word “transparency” to describe this concept. But all it really means is telling the truth – being open and honest. And that's exactly what I plan to do.

I am a hopeful person by nature. I look across our city and I see incredible promise. We are blessed with a wealth of riches not bestowed on many places.

Our community is recognized globally for its top ranking as an academic and research mecca. And, as a growing hub for the biomedical, high-tech and telecommunications industries, San

Diego continues to be on the cutting edge of science and technology. Our cultural institutions are second to none. Our diversity, legend.

Unfortunately, in recent years, our local government has not lived up to the standards of the community it serves. San Diego's municipal government has failed its citizens and become an embarrassing and corrupt impediment to progress.

Section 1: Mayor Provides Honest, Straightforward "Findings" about Pension Crisis

While the outlines of our crises are well documented, it is important that we understand their origins so that we make a meaningful break from the past and move toward solutions.

First, the city employees' pension fund was intentionally under-funded over the past ten years. New pension benefits were knowingly granted far in excess of what revenues paid into the system could support.

Second, this has created a shortfall of at least \$1.4 billion in the employee pension fund. There is also a significant unfunded liability in the City's retiree healthcare benefits.

Third, city government leaders misinformed investors when they sold millions of dollars in municipal bonds, failing to properly disclose the shortfall in the employee pension fund and other accounting irregularities.

Fourth, this misconduct and the subsequent attempts to cover it up have delayed release of our city's audited financial statements for the past three years.

Fifth, without audited financial statements, it would be cost prohibitive for the city to approach the municipal bond market, which is used by nearly every American city to finance major infrastructure projects. The result? Badly needed infrastructure projects, such as critical water and sewer improvements, have been delayed.

All of these well chronicled facts are now the basis for the indictments and criminal complaints at both the federal and local level.

Section 2: Mayor Details City's Management Problems

But city government's problems run much deeper than financial misconduct and deception.

Sixth, in a related matter, city government has failed to tell its citizens the truth about the city's operating budget. For years, unrealistic budgets have hidden the fact that expenditures exceeded the budget by tens of millions of dollars each year. Were it not for the robust growth in city revenues, the financial picture would be far worse.

Seventh, for years, important problems were swept under the rug by City government leaders.

As best I can tell, the operating philosophy around City Hall involved one of these three words: delay, deny or deceive.

This “us vs. them” mentality has contributed to a culture of secrecy, where important decisions were made behind closed doors, and ethical standards were compromised, resulting in a serious erosion of trust in city government.

Eighth, even worse, basic information systems necessary to monitor how much is being spent and how effectively services are being delivered simply don’t exist.

And finally, despite growth in the number of city employees over the past decade, the quality of basic neighborhood services in our city has not improved.

Section 3: Mayor takes Accountability/Ownership

No matter what the problems may be – or who caused them – I take responsibility for them and am willing to be held accountable.

Section 4: Speaking Directly to City Employees

I would like to address the 11,000 hardworking women and men who serve our citizens as employees of the City of San Diego. I myself was a City employee for 26 years and am very proud of my service to our citizens.

One of the most unfortunate aspects of the crisis that surrounds us is the *false* perception that you are somehow to blame for our city’s problems. Nothing could be further from the truth. **The system failed you -- not the other way around. There is great honor in being a public servant and you should be proud to be an employee of the City.**

One of the most enjoyable parts of my job has been speaking to members of our dedicated workforce. At one of my first appearances, I was asked a simple but straightforward question by a landfill worker: what do you expect from us? My answer was just as simple: continued hard work, honesty and keeping the customer in mind. That’s all that I can ask – just keep doing your jobs and I promise that we will work through these problems.

Clearly, the City and its employees are doing many things right:

- San Diego is today one of the safest big cities in America.
- We have one of the world’s most competent lifeguard agencies. They have set the standard for cliff and swift water rescues.
- Our library services are consistently rated as the “top rated city service” by residents.
- Each year, tens of millions of residents and visitors visit our 39,000 acres of parks and open space.

Our City employees make all of this possible and they are to be congratulated for it.

Section 5: Fixing the Problems

Tonight, I'm going to tell you some of the initial steps I'm taking to address the City's problems.

Please keep in mind that these problems took years to create, so they're not going to be solved overnight. To use a term that sports fans will recognize, the three years of my term will be "rebuilding years."

The solutions are going to involve pain and sacrifice from everyone, from city administrators and city employees to residents and businesses.

And most important, these solutions are going to require cooperation from the City Council and the City Attorney.

Section 6: Speaking to the Mayor's Fellow Elected Officials

To all of my fellow elected officials, I say: San Diego voters expect us to solve these problems.

Voters want to see nothing short of major, wholesale reform. They have patience for nothing short of that. They also want to see us cooperating with one another to make that reform happen.

I'm not here to criticize the City Council, the City Attorney or the employee labor unions. But, we have a collective problem here that we all need to face.

There will be days when I make everyone angry. But I need to say and do what I think is right.

Section 7: Changing the Pension Board and the Reinstatement of the City Attorney

It will take drastic, but thoughtful, reforms to change our City.

I have asked the current appointed board members of the City's Retirement System to resign. My plan would be for them to serve through the presentation of the Navigant report on January 20th and then to empanel a new board.

Reform means change -- and these changes are necessary to restore public confidence -- and more importantly, to return the System to fiscal health.

My recommendation represents the need for a fresh start. Individually, I think all of the members of the pension board are fine people. My recommendation should **not** be interpreted as a reflection on any one of them. They are to be thanked for their service to the community. Their mission has been a difficult and thankless one.

But if the pension system is to regain the trust and confidence of our community, a new board must be appointed that is committed to fully exposing past improprieties and ensuring these things can never happen again.

I am also of the personal belief that the City Attorney should be reinstated as the Retirement System's Chief Legal Advisor. I will ask the new Pension Board and the City Council to reinstate him, with all of the proper ethical protections.

As current events have made abundantly clear, the experiment for the System to have its own legal counsel did not work.

There are many in this community who will be opposed to my recommendation based solely on personalities. I take exception to that way of thinking.

Structures and systems should be designed, implemented and judged based upon how they work.

Section 8: Mayor Thanks the City Council

I am grateful to the honorable members of the City Council. The spirit of cooperation these dedicated public servants have all shown me makes clear their intentions to solve our City's problems and move forward. I have been impressed by this Council's hard work and dedication to our community.

You know, in many ways being an elected official is a thankless job. The members of this City Council pour their hearts and souls into their jobs. The last few years have not been easy one for them. I want them to know that I appreciate their service.

Additionally, Council president Scott Peters has, on behalf of the City Council, expressed a desire to help implement my recovery plans.

I appreciate his expression of support, and I'm hopeful the City Council will support him in that spirit.

I welcome Ben Hueso to the City Council and look forward to the speedy declaration of a winner in the District 2 race.

Section 9: The Mayor's 07 Budget Proposal

The City's financial health is my first priority.

Next Tuesday, the Audit Committee is scheduled to appear before the City Council. The goal is to have the investigation wrapped up as expeditiously as possible. The audits will follow.

The investigation and audits will bring with them remediation plans that I will put into place so that the excesses of the past can never – and will never – happen again.

One of the clearest breaks with the past will be my proposed budget for fiscal year 2007. Unlike budgets of the past, this budget will have a clear owner and champion – me.

Also unlike budgets of the past, this budget will truly balance. There won't be any more smoke and mirror tricks intended to conceal a budgetary deficit.

If you believe in transparency in government, it should apply to budgeting as well. But make no mistake about it – we have a budget crisis in our city. Our obligations to the pension fund will leave us with precious few tax dollars in the General Fund.

Until we receive the required pension contribution amount from the Retirement board in early March, we will not have a good handle on the City's budget. We simply don't have all of the facts at this time.

But there is **one** thing we do know: **we will have to trim expenses so that we can live within our means.**

To that end, **we have already begun the process of evaluating existing staffing levels to eliminate duplication, and to flatten the chain of command, so decisions can be made better, faster and more efficiently.**

All departments, including Public Safety, are expected to contribute to a reduction of City expenses. With respect to Public Safety, no reduction in sworn officers or firefighters will be made. Savings from these departments will come from reorganizing the administrative and support areas to improve efficiency and reduce costs.

I am also **asking managers to prepare contingency plans for a 10% cut in all non-public safety staff positions.** I hope it will not be necessary to exercise this contingency, and I look forward to working with the employee unions to develop constructive and fair alternatives.

A number of budget reforms will appear in my Fiscal Year 07 budget, including:

- reporting estimated deferred maintenance as a line item in the budget;
- a requirement that each department disclose the number of vacancies in staff positions currently and the projected vacancies by the end of the year, to prevent “phantom” staff positions from being represented in the budget;
- a requirement that projected overtime for the Police and Fire departments, among other departments, be built into the annual budget as a line item;
- a reduction in the size of the annual budget report down to one volume that includes an executive summary that can easily be understood by the public;
- a requirement that where fees are imposed, they need to be cost based and support the programs for which they are charged; and

- a requirement that enterprise and special funds be audited every three years to ensure all fees paid into those funds are used for the proper purpose, including personnel. [PAUSE]

Section 10: Mayor makes Water and Wastewater Systems Improvements Top Priorities

This last reform is of particular importance to me given the investigation of our wastewater system.

One of the unfortunate realities of our financial situation is that basic infrastructure – both for our water and wastewater systems have suffered.

In 1996, the City entered into a consent agreement with the State's Department of Health Services, regarding our water system.

In 2002, the state wrote the City to inform it, that it was falling behind on many of the promised improvements to the system. For financial reasons, the city has curtailed its capital improvements projects.

The State has informed us that \$300 million in improvements to our water treatment plants must proceed immediately. This will necessitate water rate increases.

Additional capital improvements are also needed for the sewer infrastructure.

In 2001, the City was sued for its number of sewer spills. The Environmental Protection Agency and the State filed similar lawsuits against the City in 2003.

In order to settle those lawsuits, the City will need to finance \$500 million to begin the repair or replacement of aging sewer pipes and pump stations. This will also require rate increases.

I am announcing tonight that I will recommend to the City Council that we explore private financing for the most important and immediate of these improvements. This will allow us to provide our citizens with a clean and safe water supply and to improve our sewer infrastructure.

Section 11: Mayor to Focus City on Core Services/Re-engineer Government

We will focus city resources on things we must do -- or do well. We will find better, more economical ways to perform functions we don't do as well

To do that, I'm going to focus on core services; I'm going to reduce waste, duplication and bureaucracy; and I'm going to search for more cost-effective ways to provide quality services.

I will ask the City Council to place a Proposition on the ballot asking voters to approve a Charter amendment that will allow for managed competition for appropriate city services.

This process will be transparent and it will contain safeguards to prevent abuse. The goal in this process will be a smaller, more responsive and more cost efficient city government.

I also expect the municipal labor unions to do their part. While I will ask employee groups to make additional sacrifices, I will also offer them the prospect of a comprehensive solution that will get the city's finances back on track, so employees will know that their jobs and their pensions can ultimately be secured.

I am also moving ahead with a major re-engineering of city government, with the goal of creating a model for honest, effective, efficient local government, able to provide quality services to its citizens.

The values guiding this re-structuring are ethical conduct by every elected official and employee; integrity; public trust; transparency in all decision-making; and accountability to the voters.

I am pleased to announce that as of earlier this week, my leadership team is now in place. This is a huge step forward and will allow us to get down to the hard work ahead.

My plan is to realign the City's organizational functions so that it is more efficient. We have also begun re-engineering our management processes.

We will tackle four areas first that affect the entire organization: contracts; personnel; information technology and administration. There are no preconceived outcomes. We will take the respective processes apart and assess how they can be made better.

A diverse group of stakeholders, from employees to taxpayers, will have seats at the table as we have these discussions. Over the course of the three years of my term, we will turn government upside down. I hope to review virtually every single process or function of City government.

Section 12: Mayor will Fix City's Troubled Real Estate Assets Department

A good example of this review will be the City's troubled Real Estate Assets Department. Questions related to this critical function will be addressed and resolved as part of a comprehensive solution to the city's financial crisis.

It is particularly embarrassing – and just plain inexcusable -- that the City doesn't know what properties it owns, doesn't know what properties it leases to third parties and can't tell anyone with certainty how much money it collects in rent. All of that will change.

An inventory of all City-owned property will be conducted.

An evaluation of each piece of property owned will begin as part of our restructuring.

And systems will be put in place to track income.

Section 13: Mayor Makes Affordable Housing a Priority

Restoring our ethical compass at City Hall, re-structuring city government and getting city finances back on track are just a means to a much larger end. While we must and will solve the city's immediate problems, we must also pay attention to the challenges of the future.

These challenges include a serious shortage of affordable housing.

The imperative of keeping our local economy healthy and strong even as our national economic climate becomes more uncertain. And the need to keep our neighborhoods safe and healthy, including basic infrastructure.

Beyond the City's financial crisis looms a housing emergency, an immediate and real threat that cuts across San Diego's socio-economic spectrum.

Our supply of housing continues to lag behind demand. An emphasis must be placed on building housing that is affordable to our workforce.

More housing requires good planning, and good planning demands the revitalization of San Diego's older urban neighborhoods and suburban rings. To this end, we will not simply rubber stamp the on-going update to the City's General Plan.

The General Plan must provide an honest and workable blueprint for providing housing along transportation corridors and in close proximity to employment centers. The popular term "Smart Growth" must be replaced with a meaningful commitment to encouraging density that includes supporting infrastructure.

San Diego is transitioning from suburban to urban development, which means the old rules don't apply. This requires more creative planning and innovation from homebuilders and cooperation from the City's Development Services and Planning Departments.

Regulatory inefficiency is the most immediate and correctable roadblock to solving the housing crisis. I will set into motion the reform of the regulatory process so that we can reduce housing costs and expedite the building of new housing units.

Specifically, I will set a goal of reducing the permit processing period.

To ensure this goal is met, annual benchmarks will be created to measure housing production, regulatory incentives, and reduction in processing times.

I can and will encourage dialogue between developers and environmentalists. The false wars waged by these two traditional antagonists end up costing our community huge sums of money.

My goal will be to arrive at consensus more often than not. To forge conversations aimed at shared values so that we allow responsible, thoughtful development to proceed.

Section 14: Economic Development Important to San Diego

With the vagaries of the national economy, we cannot afford to take for granted the continued vitality and growth of our local economy.

Knowledge-based industries are central to San Diego's participation in the global economy. Jobs in this area pay 60-120% more than the region's median wage and have high multipliers for creating other jobs in the region.

These industries look to San Diego's world-class research base and quality of life to recruit and retain highly skilled workers.

I will be proactive in the retention of present business and the attraction of new business.

For San Diego to remain competitive in attracting knowledge-based industries against stiff competition from other localities, **it is essential that the Mayor reflect the city's intent to be business friendly with a reasonable tax structure, access to business facilities, predictable timelines in the permitting process and a supportive physical infrastructure.**

The United States Navy and Marine Corps have played a critical role in the development of San Diego, and remain important contributors to its economy.

I will establish regular contacts with the military locally and make periodic visits to consult with Defense Department Officials in Washington, D.C.

I will also work closely with local Congressional Representatives and California Senators to maintain support for local military installations.

I will be a champion for the visitor industry. Visitors to San Diego are the important third economic leg supporting the local economy.

Section 15: Regional Cooperation Important to Getting Our "Fair Share"

I am a huge believer in regional cooperation. As much as some may think that we are an island, we are far from that. San Diego is only one of 18 cities in San Diego County. **We will be able to accomplish more as a region when we work together with San Diego County and our sister cities. To that end, I plan to meet with my colleagues on the County Board of Supervisors as well as the region's mayors within the next 3 months to establish a spirit of collaboration.**

That spirit of collaboration will serve us well when we cooperatively go after our region's fair share from Sacramento and Washington, D.C.

I have long contended that San Diego has not received its fair share from these two capitols. Our potential loss of homeland security dollars is the perfect reflection of this observation. As the

City's problems worsened over the past few years, our visibility in these two power centers has become virtually non-existent.

Our citizens lawfully pay their taxes – lots of them – every year. And as a result of they deserve their fair share back.

The most egregious example of us not getting our fair share is property taxes. Our region receives approximately 17 cents on every dollar of property taxes. Other regions receive up to twice as much.

I will ask my regional colleagues to make fiscal fairness one of our top regional priorities for 2006. I will ask SANDAG to conduct a thorough analysis so that we know where we stand, relative to other cities in funding for transportation, infrastructure and public safety.

As I speak, the Governor and legislative leaders in Sacramento are discussing the potential for the most significant infrastructure investment plan in 50 years.

I pledge that I will be a tireless advocate on our City's behalf so that San Diego can enjoy its fair share of any infrastructure bond.

I will also take an active role as an advocate for the city's interests regarding the distribution of TRANSNET funds. I would like to see these funds used to enhance the infrastructure that underlies economic development and not as a political pork barrel for local jurisdictions or as a substitute for local funding of routine maintenance.

Section 16: Chargers Options Must be Good for Taxpayers

There will also be a call this year for a new stadium for the San Diego Chargers.

As we address this challenge, I will do my best to tone down the rhetoric, move past the personality conflicts, and seek to develop a plan that protects San Diego taxpayers and fulfills the needs of the Chargers.

But if the plan cannot protect the taxpayers, we will not move forward. I promise to explore every option at our disposal to keep the team here.

Section 17: Airport Issue Important to San Diego

Another major infrastructure issue will also face voters in 2006. Our international airport at Lindbergh Field is a major constraint on our future economic well-being.

By the year 2025, congestion at the busiest single-runway airport in the U.S. will begin impacting our local economy.

Since it takes at least 15 years to develop a new airport, we are rapidly running out of time. I and other San Diegans will view with interest the actions of the San Diego Regional Airport Authority over the next several months as they make recommendations to voters about the future of commercial air transport in our region.

Section 18: Mayor Expresses Hope for the City's Future

Our city has never faced such challenging times - challenges which pose risks to our economy and quality of life.

We can view these predicaments as crises and shrink from them -- or we can view them as opportunities and step up to them. Today, I ask you to take those first steps with me.

One of my first official acts was to restore to the good name of San Diego, an historic motto: "America's Finest City." And that's because we are.

Grievous mistakes did not change our people....they did not change our harbors and beaches, nor our culture and creativity. Our pride remains unbowed and our determination is intact.

When I walk our streets and neighborhoods, I still see the dream that brought me here...the sunny view of life and the hope that shapes the strength in my fellow citizens.

Because we have faltered does not mean we should shroud this great city in shame. It means, only, that we now have work ahead of us - work which I pledge to lead....to create here in San Diego a model for efficient, accountable and ethical local government.

The task may be difficult, but I do not view it as a sacrifice to re-make our greatness; I view it as the good fortune of determined and gifted San Diegans who will never step down when there is an option to step forward.

I don't present timelines today, and my roadmap has benchmarks yet to fill in. But you can take this to the bank: I pledge you an era of openness that will keep you informed on each leg of our journey.

No one in public service should take a special pledge to tell the truth -- that should be a given. But I think this is a good occasion for you to hear it from me direct: the truth will be my compass with all the consequences it brings...good or bad.

There will be risks on this road to restoration, and I can't say there won't be mistakes.

But I will learn from them, not run from them.

And this is exactly where I look to each of you for help...I ask San Diegans for your ideas, your support, your patience and - in those times when I deserve it - a piece of your mind.

I don't ask you for your trust, because I believe I must earn that. But no one will work harder to earn it.

Twenty-one years ago, President Ronald Reagan came to San Diego on the eve of his re-election. He called San Diego “my good luck city.”

After traveling across the country, to giant cities and little towns....across the heart of America, he chose OUR city to bring a message in words I take to heart:

“We stand together, we Americans, and we're holding each other's hands, and we're walking into the future with pride in each other and a great faith.”

So I ask that we stand together at a great moment in our city's history. Stand with self confidence. Stand with determination. And stand with faith so that no one can ever question that we are, without doubt, America's Finest City.

Thank you and may God bless our great city.

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